9 January 2003

Original: English

First regular session 2003
20 to 23 January 2003, New York
Item 7 of the provisional agenda
Recommendations of the Board of Auditors, 2000-2001

UNDP: Update on the implementation of the recommendations of the Board of Auditors for the biennium 2000-2001*

Note by the Administrator

Introduction

1. The present document contains an account of the steps taken by UNDP to address the concerns raised by the United Nations Board of Auditors in document A/57/5/Add.1, supplementing information presented in document DP/2003/6.

2. The document highlights the ongoing efforts made by UNDP to address the concerns raised by the Board of Auditors since the preparation of document DP/2003/6, which reflected actions taken up to early September 2002. It therefore provides up-to-date information on current UNDP follow-up efforts to implement the recommendations of the Board of Auditors to the end of December 2002. All the recommendations referred to here appear in document A/57/5/Add.1.

I. Financial issues

Recommendation in paragraph 23 as it relates to the United Nations Capital Development Fund (UNCDF)

3. At the second regular session of the Executive Board in September 2002, the Executive Secretary, UNCDF, made a comprehensive presentation of the Fund's

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

03-20485 (E) 140103 140103

financial situation. He confirmed that efforts had been made and would continue to be made to reduce programme approvals and expenditure at levels commensurate with accumulated liquidities and income.

4. As a result, the level of new programme approvals was reduced to $9 million in 2002. As actual core contributions were lower than anticipated in 2002, UNCDF had to re-phase a significant portion of its programme expenditures down to $29 million, as compared to $32.8 million in 2001.

5. UNCDF will continue to monitor closely its financial situation in 2003 to ensure that its 2002 programme approvals and expenditures are commensurate with available resources. At the annual session of the Executive Board in June 2003, UNCDF plans to submit a proposal for the downward revision of its partial funding formula. The downward revision will reduce the authorized programme approval ceiling to a level that accounts for the fact that UNCDF no longer has a significant amount of accumulated liquidities, thus ensuring the financial integrity of the Fund at all times in a context of reduced accumulated resources.

6. On the income side, in its decision 2002/26, the Executive Board invited the international community to help to achieve the UNCDF core resources mobilization target of $30 million per year. The achievement of this target is considered necessary for UNCDF to reach a level of programme approvals and expenditures in the near future that can help to reduce the current sizeable gap between the demand of programme countries for its investments and capacity-building services in its two focus areas and its ability to respond.

Recommendation in paragraph 40 on long outstanding items in receivables

7. These outstanding items have been cleared.

Recommendation in paragraph 46 regarding the review of bank reconciliations

8. UNDP payroll accounts are being reconciled by the United Nations Accounts Group. The organization has received confirmation from the United Nations that UNDP payroll bank reconciliations are awaiting review by the United Nations Chief of Accounts. UNDP is following up to ensure that copies of the reconciliations are received by 31 January 2003.

Recommendation in paragraph 48 regarding the reconciliation of the Millennium system to the Integrated Management and Information System (IMIS)

9. The IMIS-Millennium reconciliation for 2001 is completed. IMIS-Millennium reconciliation for 2002 is being conducted on a monthly basis and will be completed by the closing of accounts in March 2003.

Recommendation in paragraph 51 on enhancing information of unidentified receipts

10. As at 30 November 2002, 65 country offices have access to Internet banking functionality; another 33 will gain access in early 2003. All other country offices are expected to have access by the end of 2003. The Treasury Division has established an investigations clerk post to focus attention on the investigation and resolution of unidentified receipts paid directly to headquarters accounts.

Recommendation in paragraph 54 related to the review of unliquidated obligations

11. The Comptroller's Division requires that each unit review its obligations regularly and submit certifications of valid obligations at year-end. The guidelines for 2002 have already been completed and are being issued to all certifying officers. UNDP will monitor compliance and take appropriate action against any certifying officers that fail to comply.

II. Management issues

Recommendation in paragraph 87 regarding guidance for the appointment of auditors for nationally executed expenditures

12. Draft guidelines have been communicated to country offices.

Recommendation in paragraph 92 regarding the establishment of standard terms of reference for nationally executed auditors and a mandatory checklist of the standard requirements to be sent to assist country offices

13. Draft standard terms of reference and a checklist have been communicated to country offices.

Recommendation in paragraph 109 regarding guidance to country offices on planning nationally executed expenditure audits and an agreed timeframe with the auditor by which the audit must be completed to meet UNDP reporting deadlines

14. Guidelines have been communicated to the country offices, including a suggested model contract for the provision of audit services.

Recommendation in paragraph 114, whereby country offices should provide headquarters with information on their evaluation of projects not subject to

nationally executed expenditure audits in order to utilize such information for risk-based assessments

15. Guidance has been provided to country offices on selecting projects for audit, including monitoring and evaluation information where projects are not selected for audits.

Recommendation in paragraph 120 regarding (a) the funding of audit costs in line with the policy in the Programming Manual *and (c) the cost-benefit of the audit in relation to project expenditure*

16. Regarding part (a), a draft revision has been submitted to the Bureau for Development Policy for their review; regarding and part (c), additional guidance has been provided to country offices.

Recommendation in paragraph 127 regarding the finalization of service level agreements with UNFPA and the United Nations Office for Project Services (UNOPS)

17. UNDP is now in the final stages of negotiations with relevant United Nations organizations that would lead to the finalization of service-level agreements. This final stage of negotiations encompasses agreements by the parties on the cost drivers for determining the charges for 2002-2003.

Recommendation in paragraph 129 regarding the stricter time frame for the reimbursement of services

18. The agreements currently being finalized establish better control over the timely payment of reimbursement charges.

Recommendation in paragraph 132 regarding formal agreements with United Nations organizations and the implementation of cost-recovery strategies for full cost-recovery of services rendered

19. UNDP is now in the process of circulating the draft revised approach to its country offices and United Nations organizations for comments. The current timetable is to finalize the revised guidelines during January 2003, for subsequent issuance and implementation effective February 2003.

Recommendation in paragraph 136 regarding the development of a suitable inventory control system

20. Work on replacing the HQINVENT, an inventory control system, has already taken place over the past two years. Pending the enterprise resource planning (ERP) system implementation and as an interim solution, UNDP is utilizing the Aperture system. A limited number of features have been added to the current functionality of the Aperture inventory system, including custody/disposal, which will contribute to enhancing controls. This has been in place since the beginning of November 2002.

Recommendation in paragraph 144 regarding the finalization and follow-up of outstanding activities by the United Nations Volunteers (UNV) on all the inactive sub-trust funds and fully funded arrangements to comply with the specific closure requirements included in the donor agreements

21. UNV has closed 32 trust funds; is in the process of closing six others that are awaiting year-end accounting entries; and has a further 21 to close pending feedback to be received from the donors. Of the full-funding arrangements, 34 have been closed, four are awaiting year-end accounting entries and 12 are pending feedback to be received from the donors. This will clear up all of the outstanding items in the two categories.

Recommendation in paragraph 154 regarding the segregation of duties between investment functions

22. The monitoring of credit risk, performance benchmarking, investment accounting and reconciliation have been reassigned from the Treasury Cash Management Section to the Treasury Operations Section to ensure necessary segregation of key functions. The Operations Section will be strengthened by the addition of a Deputy Manager of Operations position in early 2003.

Recommendation in paragraph 188 regarding the general controls surrounding IMIS

23. The staff for the dedicated Production Unit was selected in the fourth quarter of 2002 and is now operational. A lead manager for standards development was recruited in the fourth quarter of 2002; work has commenced in the first quarter of 2003. The Project Practices and Management Unit has been established and standards/procedures are under development.